

## ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its December 2002 baseline forecast of the U.S. economy. The major features of this forecast includes:

- Real GDP increases 2.4% in 2002, 2.9% in 2003, 4.5% in 2004, 3.7% in 2005, and 3.4% in 2006;
- U.S. nonfarm employment declines 0.8% in 2002, advances 0.8% in 2003, 2.5% in 2004, 1.9% in 2005, and 1.2% in 2006;
- annual average U.S. civilian unemployment peaks at 5.9% in 2003 and falls gradually to 5.1% by 2006;
- the consumer confidence index bounces between 90 and 97 over the forecast period;
- consumer inflation is 1.6% in 2002 and averages less than 2.5% thereafter;
- the federal government deficit peaks in 2004;
- and the current balance deficit swells to \$731 billion by 2005.

While the baseline forecast is the most probable, other outcomes are also possible. The alternative scenarios considered here diverge in opposite directions from the baseline forecast. In the first, the economy performs better than in the baseline. In the second, the economy falls short of the baseline's showing. One of the biggest concerns is the economy will slip into a double-dip recession. Global Insight has been steadfast in its opinion this will not occur. While in the Pessimistic Alternative economic growth is slower than in the baseline case, the economy does not decline. Both alternatives and their impacts on the Idaho economy are discussed below.

### OPTIMISTIC SCENARIO

The U.S. economy is in a funk. But it is also close to coming out of that funk. The *Optimistic Scenario* explores the impacts a few favorable factors would have on the economy's direction. It has been assigned a 15% probability of occurrence. This scenario assumes the U.S. economy gets a boost from several sources. Rest-of-the-world growth is 0.5-percentage point higher than in the baseline. The rebound in capital spending, particularly on equipment is also stronger. Consumer sentiment is higher in this scenario, which lifts consumer spending above its baseline counterpart. Fiscal policy is also more accommodating, with an assumed cut to corporate taxes that boost businesses confidence.

As a result of these factors, GDP grows twice as fast in the last quarter of 2003 compared to the baseline (1.2% versus 0.6%). Instead of languishing through the first half of this year like in the baseline, the economy springs back to life in the first quarter of 2003. It posts four straight quarters of 4.0%-plus growth. This translates to 3.8% annual growth from 2002 to 2003, which is significantly higher than the baseline's 2.9% real GDP growth. Growth is stronger in all sectors: consumer spending, exports, and business investment. After this year, real GDP advances 4.6% in 2004, 3.3% in 2005, and 3.1% in 2006. In the *Baseline Scenario*, Real GDP rises 4.5% in 2004, 3.7% in 2005, and 3.4% in 2006.

The stronger U.S forecast brightens the prospects for Idaho's economy, especially in the short term. In the *Baseline Scenario* the Gem State's nonfarm employment increases just 0.9% in 2003 and 1.9% in 2004. In the *Optimistic Scenario*, this same measure rises 1.3% this year and 2.3% next year. By 2004, Idaho nonfarm employment is expected to be 587,4000, which is about a percent higher than the

**IDAHO ECONOMIC FORECAST**  
**CURRENT AND ALTERNATIVE FORECASTS**  
**JANUARY 2003**

	BASELINE					OPTIMISTIC					PESSIMISTIC				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
<b>GDP (BILLIONS)</b>															
Current \$	10,444	10,969	11,744	12,447	13,114	10,448	11,081	11,899	12,565	13,171	10,443	10,740	11,490	12,234	12,916
% Ch	3.6%	5.0%	7.1%	6.0%	5.4%	3.6%	6.1%	7.4%	5.6%	4.8%	3.6%	2.8%	7.0%	6.5%	5.6%
1996 Chain-Weighted	9,435	9,707	10,142	10,516	10,873	9,438	9,793	10,243	10,585	10,912	9,433	9,527	9,978	10,388	10,759
% Ch	2.4%	2.9%	4.5%	3.7%	3.4%	2.4%	3.8%	4.6%	3.3%	3.1%	2.4%	1.0%	4.7%	4.1%	3.6%
<b>PERSONAL INCOME - CURR \$</b>															
Idaho (Millions)	33,891	35,387	37,436	39,591	42,011	33,895	35,680	37,929	39,998	42,253	33,890	34,931	36,680	39,020	41,461
% Ch	4.2%	4.4%	5.8%	5.8%	6.1%	4.2%	5.3%	6.3%	5.5%	5.6%	4.2%	3.1%	5.0%	6.4%	6.3%
U.S. (Billions)	8,944	9,362	9,956	10,550	11,131	8,946	9,453	10,107	10,682	11,213	8,943	9,211	9,713	10,358	10,950
% Ch	3.0%	4.7%	6.4%	6.0%	5.5%	3.0%	5.7%	6.9%	5.7%	5.0%	3.0%	3.0%	5.5%	6.6%	5.7%
<b>PERSONAL INCOME - 1996 \$</b>															
Idaho (Millions)	30,507	31,208	32,241	33,375	34,744	30,510	31,429	32,577	33,642	34,936	30,507	30,831	31,715	33,019	34,407
% Ch	2.8%	2.3%	3.3%	3.5%	4.1%	2.8%	3.0%	3.7%	3.3%	3.8%	2.8%	1.1%	2.9%	4.1%	4.2%
U.S. (Billions)	8,051	8,256	8,575	8,894	9,206	8,052	8,327	8,681	8,984	9,272	8,050	8,130	8,398	8,765	9,087
% Ch	1.6%	2.6%	3.9%	3.7%	3.5%	1.6%	3.4%	4.3%	3.5%	3.2%	1.6%	1.0%	3.3%	4.4%	3.7%
<b>TOTAL NONFARM EMPLOYMENT</b>															
Idaho (Thousands)	566.5	571.4	582.0	595.8	615.4	566.5	574.0	587.4	600.2	618.3	566.5	567.1	573.6	590.1	610.6
% Ch	-0.3%	0.9%	1.9%	2.4%	3.3%	-0.3%	1.3%	2.3%	2.2%	3.0%	-0.3%	0.1%	1.1%	2.9%	3.5%
U.S. (Millions)	130.8	131.9	135.1	137.7	139.5	130.8	132.5	136.1	138.4	139.7	130.8	130.7	133.2	136.4	138.5
% Ch	-0.8%	0.8%	2.5%	1.9%	1.2%	-0.8%	1.2%	2.7%	1.7%	0.9%	-0.8%	-0.1%	2.0%	2.4%	1.5%
<b>GOODS PRODUCING SECTOR</b>															
Idaho (Thousands)	107.5	106.3	108.0	110.5	114.1	107.5	107.2	109.5	111.3	114.3	107.5	104.7	105.9	109.2	113.4
% Ch	-6.2%	-1.1%	1.6%	2.3%	3.3%	-6.2%	-0.3%	2.2%	1.6%	2.7%	-6.2%	-2.6%	1.1%	3.1%	3.9%
U.S. (Millions)	23.8	23.4	23.6	24.0	24.3	23.8	23.6	24.1	24.5	24.4	23.8	23.1	22.9	23.4	23.8
% Ch	-4.4%	-1.7%	0.8%	1.6%	1.1%	-4.4%	-0.9%	2.1%	1.4%	-0.1%	-4.4%	-3.2%	-0.8%	2.2%	1.9%
<b>SERVICE PRODUCING SECTOR</b>															
Idaho (Thousands)	459.1	465.1	474.0	485.4	501.3	459.1	466.9	477.8	488.9	504.0	459.0	462.4	467.8	480.9	497.2
% Ch	1.2%	1.3%	1.9%	2.4%	3.3%	1.2%	1.7%	2.3%	2.3%	3.1%	1.2%	0.7%	1.2%	2.9%	3.4%
U.S. (Millions)	107.0	108.4	111.5	113.7	115.2	107.0	108.8	112.0	114.0	115.2	107.0	107.6	110.3	113.0	114.6
% Ch	0.0%	1.4%	2.8%	2.0%	1.3%	0.0%	1.7%	2.9%	1.8%	1.1%	0.0%	0.6%	2.6%	2.4%	1.5%
<b>SELECTED INTEREST RATES</b>															
Federal Funds	1.7%	1.7%	3.3%	4.2%	4.9%	1.7%	1.7%	3.3%	4.2%	4.9%	1.7%	1.2%	2.6%	3.9%	4.8%
Bank Prime	4.7%	4.7%	6.3%	7.2%	7.9%	4.7%	4.7%	6.3%	7.2%	7.9%	4.7%	4.2%	5.6%	6.9%	7.8%
Existing Home Mortgage	6.5%	6.3%	7.5%	7.8%	7.8%	6.5%	6.3%	7.5%	7.7%	7.7%	6.5%	6.2%	7.1%	7.7%	7.8%
<b>INFLATION</b>															
GDP Price Deflator	1.2%	2.1%	2.5%	2.2%	1.9%	1.2%	2.2%	2.7%	2.2%	1.7%	1.2%	1.8%	2.2%	2.3%	1.9%
Personal Cons Deflator	1.4%	2.1%	2.4%	2.2%	1.9%	1.4%	2.2%	2.6%	2.1%	1.7%	1.4%	2.0%	2.1%	2.2%	2.0%
Consumer Price Index	1.6%	2.3%	2.5%	2.4%	2.2%	1.6%	2.4%	2.7%	2.3%	2.0%	1.6%	2.3%	2.2%	2.3%	2.2%

**Forecast Begins the THIRD Quarter of 2002**

baseline's 582,000. After 2004, the situation reverses itself, and nonfarm employment grows marginally faster in the *Baseline Scenario* than in the *Optimistic Scenario*. However, this late push does not offset the *Optimistic Scenario*'s early strength. As a result, Idaho nonfarm employment in 2006 is about 3,000 higher than in the *Baseline Scenario*. Idaho real personal income displays a similar growth pattern. Namely, in the *Optimistic Scenario* it advances faster than its baseline counterpart in 2003 and 2004, but is slightly slower in the last two years of the forecast. As was the case with nonfarm employment, this results in the level of Idaho personal income being higher in 2006 in the *Optimistic Scenario*.

## PESSIMISTIC SCENARIO

This scenario has been assigned a 30% probability of occurrence. Consumer spending has kept the recession mild, but the slow recovery is testing their patience. This scenario explores the impacts if consumers have a crisis of confidence. There are several factors that could cause this. Household budgets are stretched thinner than ever, and credit problems are on the rise. The housing market shows signs of cooling off. This alternative assumes this causes the housing bubble to burst. Consumer confidence also suffers when Congress fails to reinstate the extension of unemployment benefit and fails to agree on tax reduction. This causes real GDP to be stagnant in the last quarter of 2002 and the first quarter of 2003. In the second quarter of 2003, real GDP declines 1.6%.

What finally comes to the economy's rescue is time. Inventories are at bare bones levels and companies have returned to profitability. In 2004, both consumers and businesses make up for lost time. Vehicle sales surge and investment in equipment and software climbs at a double-digit pace. Manufacturing gets a double boost from the pick up in demand and the need to rebuild inventories. The spending spree slows in 2005, but by then the private sector is propelling growth and the unemployment rate is back down to 5.5%. Real GDP rises 1.0% in 2003, 4.7% in 2004, 4.1% in 2005, and 3.6% in 2006.

The slower recovery in the *Pessimistic Scenario* deals the Idaho economy a blow from which it does not recover. The difference between this forecast and the baseline forecast is especially noticeable this year and next. In both years, Idaho nonfarm employment grows 0.8-percentage point slower than in the baseline. But nonfarm employment does grow faster than in the baseline in 2005 and 2006. In 2006, Idaho nonfarm employment is about 5,000 less than in the *Baseline Scenario*. Idaho real personal income also grows slower in 2003 and 2004 and faster in 2005 and 2006. In the last year of the forecast, Idaho real personal income is \$34.4 billion, which is \$300 million lower than the baseline's \$34.7 billion.